SYSTEM AND METHOD FOR PREPARATION OF

PERSONAL INCOME TAXES

BACKGROUND OF THE INVENTION

1. Technical Field:

This invention relates to electronic income tax data
processing. More particularly, the invention relates to
a system and method for electronically preparing income
tax returns by a financial recording service provider
which collects and stores tax data and utilizes the
stored tax data to assist in the preparation of client
taxpayer's income tax returns.

2. Description of Related Art:

In recent years taxing authorities at both the
federal and state level have increasingly automated tax
collection and payment processes. For instance, the
United States Internal Revenue Service (IRS) has
instituted an electronic tax return filing and refund
payment systems which is embodied in the Department of
Treasury ACH origination system. However, this system
still contains inaccuracies which affect the data
provided to the taxing authority.

The IRS tax collection system relies on financial
data provided by the individual taxpayer which may or may
not, whether intentionally or accidentally, fail to
provide pertinent financial data as defined under
perpetually evolving IRS laws and regulations. In turn,
this leads to the miscalculation of the appropriate tax
payment to the taxing authority and, if applicable, tax
refund to the taxpayer based on the introduction of
incorrect data in the tax return.

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With regard to the taxpayer, yearly income tax payment is a difficult process encountered by almost all citizens. During preparation of the tax return, the taxpayer must collect and review many tax records and

5   receipts which were kept, or should have been kept, to substantiate the taxpayer's income and expenditures during the fiscal year. These documents can be voluminous depending on the deductions claimed by the taxpayer.

10   Business enterprises encounter the same difficulties as individual taxpayers in preparing tax returns. Most businesses generate many records of business income and expenses which are difficult to properly keep and apply to income tax calculation. In some cases, the paper

15   records generated by a business or corporation are so voluminous that they are photographed and placed on microfiche for storage. This process, more often than not, results in the loss of important tax data and increases the difficulty in preparing an accurate tax

20   return which may result in a tax overpayment or underpayment as the case may be.

The present invention recognizes the limitations existing in the prior art and that a need exists for an improved method of gathering tax data from taxpayers and

25   financial, charitable, and retail institutions which enter into transactions with taxpayers, with a greater degree of accuracy. Likewise, the present invention recognizes the need associated with the collection, calculation, payment and refund of tax monies by

30   minimizing the burden placed on the taxpayer to gather and collect the appropriate data required under changing tax statutes.

SUMMARY OF THE INVENTION

The present invention is a system and method that
reduces the taxpayer's burden of tax preparation and
5   provides greater accuracy in the calculation of tax
return figures. The invention provides for a centralized
data repository service which collects tax information on
behalf of the citizenry (a financial recording service
provider), indexes the data by a personal identifier, and
10   allows the taxpayer to either recall the data for use on
yearly income tax returns or enables the government or a
third party to access the data, prepare the taxpayer's
tax return and file the tax return with the appropriate
governmental taxing authority.

BRIEF DESCRIPTION OF THE DRAWINGS

The novel features believed characteristic of the invention are set forth in the appended claims. The invention itself, however, as well as a preferred mode of use, further objectives and advantages thereof, will best be understood by reference to the following detailed description of an illustrative embodiment when read in conjunction with the accompanying drawings, wherein:

Figure 1 is a pictorial representation of a distributed data processing system in which the present invention may be implemented;

Figure 2 is a block diagram of a data processing system that may be implemented as a server depicted in accordance with a preferred embodiment of the present invention;

Figure 3 is a block diagram of a data processing system in which the present invention may be implemented; and,

Figure 4 is a flowchart depicting one embodiment of the present invention wherein the financial recording service provider communicates with various institutions and receives tax data pertaining to transactions between the client taxpayer and various institutions.

DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENT

With reference now to the figures, **Figure 1** depicts
a pictorial representation of distributed data processing
system in which the present invention may be implemented.

5   Distributed data processing system **100** is a network of
computers in which the present invention may be
implemented. Distributed data processing system **100**
contains a network **102**, which is the medium used to
provide communications links between various devices and

10   computers connected together within distributed data
processing system **100**. Network **102** includes connections
such as wire, fiber optic cables, and telephone
connections. In the depicted example, a financial
recording service provider **104** is connected to network

15   **102** along with storage **106**.

In the depicted example, financial recording service
provider **104** represents a third party vendor which
provides tax data collection and storage services to
client taxpayers, such as client taxpayer at computer

20   **110**. Financial recording service provider **104** both
transmits and receives data, such as data files,
operating systems, images, and applications to and from
tax authority **108**, client taxpayer **110**, and different
participating financial institutions **112** which may

25   include banks, brokerage houses, retail stores and
charitable organizations, among others. It should be
noted that "participating institutions" are those
institutions indicated by the client taxpayer's customer
profile with the financial recording service provider,

30   which participate in transmitting and receiving tax data
with the financial recording service provider.

Participating institutions **112** keep electronic records of financial transactions and charitable donations by client taxpayers **110** which may be transmitted to the financial recording service provider **104**. The data transmitted to

5 and received by financial recording service provider **104** may be stored locally or on storage medium **106**. Tax authority **108** may be a federal, state or local tax authority which accepts electronically transmitted tax information and returns. Distributed data processing

10 system **100** may include additional servers, clients, and other devices not shown.

Referring to **Figure 2**, a block diagram of a data processing system that may be implemented as a server, such as financial recording service provider **104** in

15 **Figure 1**, is depicted in accordance with a preferred embodiment of the present invention. Data processing system **200** may be a symmetric multiprocessor (SMP) system including a plurality of processors **202** and **204** connected to system bus **206**. Alternatively, a single processor

20 system may be employed. Also connected to system bus **206** is memory controller/cache **208**, which provides an interface to local memory **209**. I/O bus bridge **210** is connected to system bus **206** and provides an interface to I/O bus **212**. Memory controller/cache **208** and I/O bus

25 bridge **210** may be integrated as depicted. Peripheral component interconnect (PCI) bus bridge **214** connected to I/O bus **212** provides an interface to PCI local bus **216**. A number of modems may be connected to PCI bus **216**. Typical PCI bus implementations will support four PCI

30 expansion slots or add-in connectors. Communications links to network computers **108-112** in **Figure 1** may be provided through modem **218** and network adapter **220**

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connected to PCI local bus **216** through add-in boards.

Additional PCI bus bridges **222** and **224** provide interfaces for additional PCI buses **226** and **228**, from which additional modems or network adapters may be

5   supported. In this manner, data processing system **200** allows connections to multiple network computers. A memory-mapped graphics adapter **230** and hard disk **232** may also be connected to I/O bus **212** as depicted, either directly or indirectly.

10   Those of ordinary skill in the art will appreciate that the hardware depicted in **Figure 2** may vary. For example, other peripheral devices, such as optical disk drives and the like, also may be used in addition to or in place of the hardware depicted. The depicted example

15   is not meant to imply architectural limitations with respect to the present invention. The data processing system depicted in **Figure 2** may be, for example, an IBM RISC/System 6000 system, a product of International Business Machines Corporation in Armonk, New York,

20   running the Advanced Interactive Executive (AIX) operating system.

With reference now to **Figure 3**, a block diagram illustrating a data processing system is depicted in which the present invention may be implemented. Data

25   processing system **300** is an example of a computer, such as client taxpayer computer **110** in **Figure 1**. Data processing system **300** employs a peripheral component interconnect (PCI) local bus architecture. Although the depicted example employs a PCI bus, other bus

30   architectures such as Accelerated Graphics Port (AGP) and Industry Standard Architecture (ISA) may be used. Processor **302** and main memory **304** are connected to PCI

local bus **306** through PCI bridge **308**. PCI bridge **308**
also may include an integrated memory controller and
cache memory for processor **302**. Additional connections
to PCI local bus **306** may be made through direct component

5   interconnection or through add-in boards. In the
depicted example, local area network (LAN) adapter **310**,
SCSI host bus adapter **312**, and expansion bus interface
314 are connected to PCI local bus **306** by direct
component connection. In contrast, audio adapter **316** and

10   graphics adapter **318** are connected to PCI local bus **306**
by add-in boards inserted into expansion slots.
Expansion bus interface **314** provides a connection for a
keyboard and mouse adapter **320**, modem **322**, and additional
memory **324**. Small computer system interface (SCSI) host

15   bus adapter **312** provides a connection for hard disk drive
326, tape drive **328**, and CD-ROM drive **330**. Typical PCI
local bus implementations will support three or four PCI
expansion slots or add-in connectors.

       An operating system runs on processor **302** and is

20   used to coordinate and provide control of various
components within data processing system **300** in **Figure 3**.
The operating system may be a commercially available
operating system, such as Windows 2000, which is
available from Microsoft Corporation. An object oriented

25   programming system such as Java may run in conjunction
with the operating system and provide calls to the
operating system from Java programs or applications
executing on data processing system **300**. "Java" is a
trademark of Sun Microsystems, Inc. Instructions for the

30   operating system, the object-oriented operating system,
and applications or programs are located on storage
devices, such as hard disk drive **326**, and may be loaded

into main memory **304** for execution by processor **302.**

Those of ordinary skill in the art will appreciate
that the hardware in **Figure 3** may vary depending on the
implementation. Other internal hardware or peripheral
5   devices, such as flash ROM (or equivalent nonvolatile
memory) or optical disk drives and the like, may be used
in addition to or in place of the hardware depicted in
Figure 3. Also, the processes of the present invention
may be applied to a multiprocessor data processing
10   system. As another example, data processing system **300**
may be a stand-alone system configured to be bootable
without relying on some type of network communication
interface, whether or not data processing system **300**
comprises some type of network communication interface.
15   The depicted example in **Figure 3** and above-described
examples are not meant to imply architectural
limitations. For example, data processing system **300**
also may be a notebook computer or a device in a black
box connected to a power supply system.
20   With reference to **Figure 4**, a preferred embodiment
of the invention is depicted which demonstrates a method
of the invention. The client taxpayer registers with a
financial recording service provider which provides tax
data collection and storage services (Step **402**). The
25   client taxpayer fills out an electronic customer profile
form that requests pertinent personal and tax data
information, including but not limited to, social
security number, biographical and earnings information
and credit card/debit account information. The data is
30   then transmitted to the financial recording service
provider which indexes the information, preferably by
taxpayer identification number (e.g. social security
number). Next, the client taxpayer's credit card/debit

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account is debited for the financial recording service
provider's service (Step **404**). Note that other
subscription payment methods may be used (e.g. a yearly
bill, a corporate account, etc.) as is generally known in

5   the art. The financial recording service provider
notifies participating institutions that the client
taxpayer is associated with the financial recording
service provider and may transmit tax data to the
financial recording service provider after participating

10   institutions consummate transactions with the client
taxpayer (Step **406**). Optionally, the client taxpayer may
notify participating institutions with which he or she
does business. The participating institutions may
transmit tax data after each transaction, after

15   predefined time periods have elapsed or annually on a
predetermined date. Next, the client taxpayer executes
transactions with participating institutions which may
result in the creation of relevant tax data (Step **408**).
At the scheduled time, the participating institutions

20   send messages to the client taxpayer and financial
recording service provider indicating that a transaction
has taken place which has generated tax data (Step **410**).
Optionally, the participating institutions may send
messages to the client taxpayer, and financial recording

25   service provider that tax data generated from
transactions with the client taxpayer will be transmitted
to the financial recording service provider for inclusion
in the client taxpayer's tax return. The financial
recording service provider receives the tax data from

30   participating institutions and "seeds" the client
taxpayer's tax return with pertinent tax data (Step **412**).
For example, tax data regarding the dividends from a
client taxpayer's stock portfolio/brokerage account at a

participating institution are transmitted to the
financial recording service provider for insertion
("seeding") into the client taxpayer's tax return. It
should be noted that participating institutions may

5   continue to send to the taxing authority that information
required by the tax code.

When tax return preparation is commenced, the
financial recording service provider transmits the
"seeded" tax return to the client taxpayer, or a third

10   party tax preparation service, for review (Step **414**).
The client taxpayer, or third party tax preparation
service, reviews the "seeded" tax return, and updates the
tax data, as needed. The update may include correcting
data errors, modifying the tax data, and inserting any

15   additional tax data, if any, to complete the tax return
(Step **416**). The client taxpayer's taxes are then
calculated by the client taxpayer, or, optionally by a
third party tax preparation service (Step **418**) and then
submitted to the appropriate tax authority (Step **420**).

20   An electronic copy of the tax data and executed tax
return may be sent to the financial recording service
provider for storage.

A typical example of the embodiment depicted in
Figure 4 of the invention disclosed herein may be

25   described as follows. A typical taxpayer, John Doe
("Doe"), has moderately complex finances. He has
interest bearing bank accounts, an Individual Retirement
Account (IRA) (containing both recently contributed money
on which the taxes have already been paid, and earlier

30   contributed money on which taxes were not paid as
permitted by law at the time), and stock and mutual fund
ownership interests. He may also have foreign financial
interests, a large home mortgage, and own property in

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different states. Doe works for a moderately sized company, and sometimes has un-reimbursed business expenses.

A financial recording service provider provides Doe with the service of accumulating his tax information and assisting in the preparation of his tax returns. Doe has subscribed to the financial recording service for the year, and the financial recording service provider (or optionally Doe, individually) has informed all of the financial institutions with which Doe has a relationship that the financial recording service provider is representing Doe (Steps **402, 404, 406**).

During the year, financial transactions with tax implications occur involving John (Step **408**). The participating institutions inform Doe of the transactions, if he is not party to the transactions directly, (e.g. posting of interest to a bank account, posting of capital gains to a mutual fund) (Step **410**). When the transactions involve an institution participating in the financial recording service program, that institution also transmits information about the financial transaction to the financial recording service provider. For example, when a quarterly dividend is posted, the amount of the dividend and the taxpayer ID involved is sent to the financial recording service provider. Optionally, all of the participating institutional data may be sent once a year before taxes are due.

At the end of the fiscal year, tax forms (e.g. 1099-DIV) are generally sent to the taxpayer and to the tax authority by participating institutions, such as mortgage holders, banks, and brokerage houses. In the present invention, this information may also be sent to

the financial recording service provider. When Doe is
ready to calculate his taxes, his tax data information
has already been received by the financial recording
service provider and used to "seed" a tax return form for

5   Doe (Step **412**). The tax return form "seeded" with the
tax data information may be compiled, transmitted and
vetted in a variety of ways including, but not limited
to, the Internet via a web browser, transmitted as a file
for Doe to manipulate on his home computer, and/or

10   printed out by the financial recording service provider
and mailed to Doe (Step **414**). One of the novel aspects
of the invention herein disclosed is that in the
inventive system disclosed herein, such "seeding" is
done with current year data, rather than the previous

15   year's data as in existing tax preparation systems.

Whatever the format, Doe has line item review and
edit for each piece of tax data information. For those
institutions which are not "participating" institutions
(e.g. foreign stock holdings), Doe inputs the required

20   tax data information for the purposes of updating the tax
data, which may include any modifications to the tax
data, for completion of the tax form. This update may be
performed via entering on a keyboard for a local program,
or a server based program, using voice recognition over a

25   telephone to the financial recording service provider, or
by hand on a physical form. The tax information is thus
updated, completed, validated by the taxpayer (line item
edit), and submitted to the appropriate tax authority
(Step **416**). Submission of the tax return can be

30   accomplished in electronic form from the financial
recording service provider, if the financial recording
service provider is also providing tax return forms.

The tax data information may then be transmitted to

a third party tax return preparation vendor, such as H&R Block, for tax return preparation (Step **418**). Likewise, the financial recording service provider function may also include tax return preparation services or may be limited to tax information aggregation on behalf of subscribing taxpayers. The client taxpayer's tax return is then submitted to the tax authority (Step **420**).

Another example of an embodiment of the present invention provides for the tax data information relayed to the financial recording service provider to include individual retail transactions as mediated by a charge card company. For example, if a credit card company is a participant to the financial recording service provider, or if the financial recording service provider includes a credit card business, then each charge amount, at or near the time the transaction is completed, can be transmitted to the financial recording service provider with the appropriate tax information. That is, if Doe has an unreimbursed business expense, he can so indicate at the time of charging and that information can be relayed to the financial recording service provider by the charge card company. This allows capture of tax information for itemized deductions.

It is important to note that while the present invention has been described in the context of a fully functioning data processing system, those of ordinary skill in the art will appreciate that the processes of the present invention are capable of being distributed in the form of a computer readable medium of instructions and a variety of forms and that the present invention applies equally regardless of the particular type of signal bearing media actually used to carry out the distribution. Examples of computer readable media

include recordable-type media, such as a floppy disk, a
hard disk drive, a RAM, CD-ROMs, DVD-ROMs, and
transmission-type media, such as digital and analog
communications links, wired or wireless communications

5   links using transmission forms, such as, for example,
radio frequency and light wave transmissions. The
computer readable media may take the form of coded
formats that are decoded for actual use in a particular
data processing system. The embodiments described herein

10 were chosen in order to best explain the principles of
the invention, the practical application, and to enable
others of ordinary skill in the art to understand the
invention for various embodiments with various
modifications as are suited to the particular use

15 contemplated.